

**COMMITTEE ON ACCOUNTS, ENROLLMENT
AND REVENUE ADMINISTRATION**

February 9, 2004

5:00 PM

Chairman Smith called the meeting to order.

The Clerk called the roll.

Present: Aldermen Smith, Shea and Osborne

Absent: Aldermen Guinta and Thibault

Messrs: Kevin Clougherty, Randy Sherman, Scott Bassett

Chairman Smith addressed Item 3 of the agenda:

The first purpose of the meeting is organizational in nature, and requests the Clerk to provide a brief overview regarding typical issues addressed by the Committee.

Clerk Fysh stated this Committee shall examine Ordinances for consistency with the rules of the Board and required laws and shall report to the Board as to whether said Ordinances are properly enrolled. The Committee shall receive periodic reports from the Board of Assessors as to the real estate tax base of the City, the number of abatements filed and their disposition. The Committee shall have jurisdiction over policy regarding City expenditures, revenue performance and forecasts, financial statements, audit reports, City bonding and such other matters as may be referred by the Board of Mayor and Aldermen. The Committee shall review all such referrals and where required, after due and careful consideration, shall report back to the Board of Mayor and Aldermen.

Chairman Smith addressed Item 4 of the agenda:

Presentation of draft FY2003 Comprehensive Annual Financial Report (CAFR) and draft Management Letter prepared by McGladrey along with the Finance Officer's response.

Chairman Smith stated I would just like to say that what we're going to do for our format, the CAFR is divided into three parts. We'll proceed with the introduction by Mr. Clougherty, then the financial by the Auditor, and then stats will end us on the third section and then we'll receive questions after that.

On motion of Alderman Osborne, duly seconded by Alderman Shea, it was voted to open this item for discussion.

Finance Officer Kevin Clougherty stated I might start by just giving a little bid of an overview of what the audit consists of and why we're here this evening. One of the things that we think is important is that the City finances have a very transparent nature to them and that anything that goes on of a financial nature in the City be fully disclosed so that taxpayers and auditors and everybody else has a chance to look at that. So an important piece of this disclosure and transparency is having an external audit firm, CPA firm, come in and examine the City's books. And I just want to make sure everybody understands what their role is. You have in front of you a Comprehensive Annual Financial Report, a CAFR. This report is prepared in the Finance Department. We write it, we prepare it, all of the documents that are in there, all the tables are done in the Finance Department. As we operate throughout the course of the year all of the transactionally responsibilities rest with the Finance Department and we pull together a Comprehensive Annual Report. Now we're required to pull together that report in conformance with generally accepted accounting principles and to make sure that it's a full, accurate and reliable disclosure for investors, for government agencies, for the Federal and State agencies that give us Federal funds, and to make sure that the taxpayers and anybody that wants to look at the City operations that there's a reliable set of dollars tracking that result in the form of a comprehensive report. So unlike other cities or other small districts, where sometimes the auditors may have come in and prepared the report, that's not the case here. The Finance Department prepares the report and what we do is we hand that off to McGladrey and to Scott Bassett who is with us from McGladrey here as the external auditor, the CPA, they come in and they take a look at the report that we've prepared upstairs to make sure that it's been done in conformance with these accounting principles. Now we in an interesting point in time. With everything that's been happening with Enron and with some in the private sector, the spotlight on auditing and on auditors is very bright right now. So there are some people that will say that that's not a good thing, on the contrary we think it's a great thing. We think that as a result of some of the scrutiny that the audit profession is under, we get a much heavier scrutiny on our financials and so if there are going to be problems they come to the surface more readily. I can tell you that I think that the audit we went through this year was probably the most strenuous and detailed that we've gone through. And that is a good thing. I will also tell you that all of our reports, this CAFR when it is eventually adopted by the Board, along with all of

the monthly financials and all of the quarterly reports, are on the Internet. Unlike in some other cities, any citizen in Manchester that wants to go to City's web page and go to the Finance Department, you see that there's a place that has financial reports and you can look at all of these reports that go back in time over the last several years, over the last months and over the last quarter. So the emphasis here is on full disclosure and transparency. We're strong believers that if there's a mistake, and there are mistakes. The reason we go through an audit is because you have millions of transactions a year and you want to make sure that they are caught. So the more eyes looking at these things, whether they are auditors, whether they are private citizens calling us up on the Internet, whether it's Federal agencies, the better, and that's how we find problems when they are smaller and we can take care of them. The report that you have, the CAFR, is really in three sections as the Chairman noted. There's the Management and Discussion and Analysis, which I prepare. What I'm trying to do there is...we don't have an annual report for the City. So what I try to do in the CAFR is provide what would be the financial section of an annual report to the public, and if you read through that, it should give you a good idea as to what transpired during the year in terms of finances. What were the major issues? What were the things impacting the City? There's a discussion in there about bonding and the bond issues that we did. There's discussion in there about the school funding and many of the other things that we talk about on a regular basis during the year. So there is a chronology there of issues that if you look at this year's CAFR and go back through prior years, you'll find is a pretty good record of what's going on, so that future generations want to come back and see what things went on during the 1990s and turn of the century, there's a good record there that people can look at. In the financial statements is a second section. Again, that's prepared by the Finance Department and reviewed by the auditors and that's a piece that Scott will talk about. The final section, the statistical section, is unaudited. That's prepared again by the Finance Department, it reflects the activities of the different departments and it's useful for students, for Federal government, and for others. In addition to the CAFR, you also have a second document that is presented and that's the Management Letter. One of the requirements of the audit firms is as they go through and look at companies and look at entities such as the City of Manchester, if there is something in their minds is a weakness in the internal control system, they have to bring that to your attention. They've got to say that this is major problem and raise that issue so that you can discuss it and rectify it, and I can tell you this year, there's nothing that raises to this level. We don't have any major findings, any major observations. In addition, the auditors can give you some helpful advice. Some ideas where they think you might be able to make some improvement and we have three areas that they've talked about this year with respect to contract management, revenue tracking, particularly in the smaller departments, and some segregation of duties in the smaller departments that he'll discuss with you. And again, that's helpful advice but doesn't rise to the level of a

serious issue. We're happy with the report this year. We think that the numbers in the report, which are important, don't show any deficit. They show us in a good, strong position, which given the condition of other cities like Pittsburg, which is on the edge of bankruptcy, and Cleveland, which is laying off a lot of people, and Nashua, which is having some issues with respect to its budget, we're in good financial condition and it's in part because of the policies. If you read through the footnotes and the policies in this document, the things that the Board has adopted have helped to keep us there, it has made hard decisions that this Board has had to make. So overall I am grateful to the departments for their hard work, their attention details. I think that in this difficult economy, we have posted some good numbers and we're in a good strong position and that's also a reflection in our credit rating. I would invite people to go onto the web site and take a look at these documents, once they are released in another week or so after we've gone to the full Board, and I would be happy to answer any questions about management discussion and analysis or I'll hand it off the Scott and let him talk about the financials if you'd like that.

Alderman Osborne asked are there any major changes in the way this was done from 2002 to 2003?

Mr. Clougherty answered no. The major change happened last year with GASB 34, which was a major change in the way that cities and towns had to do their accounting. It was the first that that we started to account for the general fund very similar to the way we handle the enterprise funds with depreciation and bringing on assets. But I wouldn't say there were any major changes this year.

Mr. Clougherty stated but I'll let Scott speak to that if you'd like when he talks about the financial section, he'll touch on that.

Alderman Osborne asked how about figures? The bottom line here, is there any big changes?

Mr. Clougherty answered we will let Scott speak to that point.

Scott Bassett, partner with the audit firm of McGladrey and Pullen LLC, we are engaged this year to audit the financial statements prepared by the City for the fiscal year ending June 30, 2003. This is our fourth year as the independent auditors for the City and we conducted our audit in accordance with generally accepted auditing standards, and the statements are presented in accordance with generally accepted accounting principles. Part of the audit process is that obviously we use a materiality. We looked at numbers and how accounting principles are applied as we go through that, so the design of an audit is to obtain reasonable rather than absolute assurances about the financial statements. That's

what we're engaged to do. You, as the audit committee, are as the equivalent of an audit committee; you've applied oversight on these financial statements as we go through them. We talked about comparable to last year and this year and any significant changes from 2002 to 2003. The only significant change is really enhancing the management discussion and analysis. For the first time we're able to compare 2003 to 2002 under the same basis of accounting. So that I think that's helpful to read it as you go through it. We did not encounter any unusual transactions in the current year, other than one that we talked about in 2002 with the accounting for the Civic Center. Embodied in these financial statements are estimates that we go through and look at the pages to develop those estimates, but there are estimates embodied in these financial statements. There really weren't any significant audit adjustments from the financial statements that were given to us, which is really a key component I believe. If I'm making many entries, then the information that you're getting on a monthly basis to manage the City, you may not be getting accurate information. That's not the case in the City of Manchester. I think the information from what we can tell when we get the final product, which is really a key observation because that enables you to make management decision on accurate numbers and that's not always the case with some cities that are involved with this. So I think that's a real attribute that the Finance Department provides to you. We did not encounter any disagreement with management and we did not perform any management advisory services during the year. That's a required disclosure that we have to make to you. As you know the accounting profession and with consulting services outweigh the auditing services and there's questions of independence and things of that nature. We just provided the audit this year and on one or two occasions they asked us to provide some procedures on bond issues or a consent letter, but there was not consulting services provided by McGladrey and Pullen in the current year. As far as the audit goes, I would encourage everybody...I really think GASB 34 was a struggle to get there, but I really think that the MD&A that Kevin talked about, probably a 10 or 11 page narrative that talks about the highlights of the City, so if you want to find out what happened within the City this year, instead of going through the 130 page document, there is a nice narrative that will walk you through each fund, each major fund, and what increased and decreased and the reason for that. I would like to see that as a separate document which a taxpayer could go read instead...when they look at a 135 page document, where to find out and where it is embodied in there, it's quite difficult and it could be overwhelming just to take a look at those things. But if you really pull out the MD&A and what management talks about there, is really what I'm going to talk about as I go through the highlights of the financial statements this year. We really present in full basis of accounting. The full accrual basis of accounting, which is really a snapshot as of June 30th and you really only look at it at one point in time. The City really doesn't use that for their day to day activities because it's on the full accrual and it really is like comparing apples and oranges as far as when you go

through comparing that to your budget and the budget that you adopt each spring. But of course that's what I'm going to start with towards the one that really we don't talk about too much. We have a statement of net assets that basically brings in fixed assets and all of the assets and liabilities of the City and measures the assets against your liabilities. We do that for governmental fund types and we do that for business enterprise fund types. And under that method of accounting, we had cash of \$90 million; we had capital assets net of accumulated depreciation of \$692 million. We had total liabilities, including all of the debt and long-term liabilities of the City of \$586 million, which left us net assets of \$383 million, of which the bulk of that is free of capital assets that you invested within the City. And you had \$14 million, which is on Page 50. Getting back, my responsibility is to audit the first three columns. The other three, the columns on Page 51 were done by other auditors. They are component units of the City and they prepare those statements for you, but as I said going through we had total assets \$969 million, we total liabilities for the City of \$586 million, that left us going down to the bottom of the page, \$383 million in net assets. The bulk of that \$309 million are your investments and capital assets net of the debt. So you purchased that typically with long-term bonding, or you purchased capital assets with long-term bonding and that's the figure that's there. The rest is what you'd call restricted for specific purposes and the balance of \$14 million is unrestricted.

Mr. Basset continued turning to Page 52, what does that all mean compared to where we were last year to where we are this year. I'm going down to Page 53, where you look under the total column and see that third line from the bottom on the third column over on Page 53, you had an increase of net assets this year of \$37 million. Since your revenues came in under the full basis of accounting, \$37 million to the good, and that's really a reflection of when you budget you budget capital expenses as an expense or if you're purchasing those are an increase in assets not an expense on this schedule. That's offset by depreciation, but what this tells you really that you purchased your infrastructure improvements are greater than the depreciation expense this year and your total net assets increased by that \$37 million. That includes both the government statements and also your business type activities, your EPD, your aviation and your Water Works Department. I think that the next page, Page 54, there are some numbers on here that are pretty well and as you go through your process of your budget making. The first column shows the general fund under I'll call it the budgetary basis of accounting, where we have our assets and we don't measure for this page here, we're not measuring our capital assets or our long-term liabilities, we're really measuring our current assets and our current liabilities as you get to a fund equities section. I'll tell you two numbers that everybody would take a look at. Obviously on the bottom third of the page, there are portions of fund equity that are reserved for encumbrances and inventory and advances and things of that nature, and also we have what we call undesignated and unreserved where we have undesignated and unreserved

portion of the fund balance of \$1.3 million, and then you have revenue stabilization of \$9.6 million, that's designated for future use. Those two numbers together are about \$11 million and part of the question is that too little or too much, when you compare that to your expenditures, I would say you're in pretty good shape and there are benchmarks out there that rating agencies use and in a couple of presentations that I've listened to from those rating agencies, they're inching that up a little bit. It used to be 5 to 10, now it might be 7 to 12, so if you kind of look at right where you're at just using those as a benchmark, you're right at the 10 – 11, so I think you're in pretty good shape there. I wouldn't say it's low, I wouldn't say it's high, I think you're probably...as I'm looking at it from an objective standpoint using those benchmarks, you're probably right in the middle, probably right where you want to be. Going to Page 55 we had a small increase fund balance under the budgetary basis of accounting of \$1.3 million, with a total fund balance of \$22 million, which if you look over to Page 54, you'll see the fund equity under the general fund of \$22.808 million equals the general fund fund balance there of \$22.808 million. Capital projects is the next column over and this is a type of balance sheet where it is very difficult to compare one year to the next. You really don't expect consistency in a capital projects fund because one year at the end of the year you could just be borrowing your bonds on May 1st or June 1st, that would leave you with cash in the bank and under this basis of accounting bond proceeds are almost treated like a revenue. So they increase your fund balance. So one year you could have surplus of \$30 million if you borrowed late into the year and then you'd hope in the next year you'd show a loss because you want to spend those bond proceeds as they come in for the designated projects. So you can see here on Page 55 that the capital projects fund and in this method of accounting you had a loss. Basically what that is saying is that within the City, you had 8 grants that came in at \$4 million and approximately \$16 million in capital projects that were funded with bond proceeds that you took in in the prior year. That's a fund type that you would look for consistency in because it's always dependent on your capital project plan and your bonding needs and using that cash or not using. So in measuring debt as revenue sometimes gets pretty confusing when we all know on the other basis it gets us there as a liability within the accounts.

Mr. Bassett continued on Page 57 is your budget to actual results for the general fund. We'll work from the bottom up. When this budget was adopted and revised, it was intended that the City would use \$1.1 million of fund balance. The third column over shows that the City used \$1,005,000 of the fund balance, which from a budgetary basis is a surplus of \$94,000. But how did that happen? I think that's a clearer picture of what happened. Into the year we realized a couple of things. Interest rates were at an all time low. The revenues were coming in as anticipated and the negative variance compared to the budget for the revenue side was about \$4 million. That was offset mainly by your expenditures. Looking at

that, making some budget reductions and holding the line on some expenditures, you're able to make up that loss of \$4 million within the revenue side with \$4 million of savings on the expenditure side. So overall from a budgetary standpoint, although your revenues were \$4 million less than expected, you also were able to combat with the less than expected expenditures, it's really from a planning standpoint you ended up pretty close, within one percent of your budget with \$94,000 with what your intended use was. So from a management standpoint you're were able to manage that budget, manage the budget shortfall, with the reduction of the expenditures and go forward with it. The business type activities are presented on Page 58 and 59. You have three major business type activities. You have the Water Works Fund, EPD and the Aviation Fund all ended the year with a positive change in net assets from beginning of the year to the end of the year. Water Works had increased their net assets by \$2.7 million, EPD fund increased by \$235,000 and Aviation Fund increased by \$26 million. A big portion of that from the Aviation Fund where we do receive capital contributions that come to that fund in the form of grants and donations that are non-operating. You can see that \$25 million on Page 59, the fourth line up from the bottom in the third column. But again, three strong funds. Fund that have adequate fund equity and again from an accounting standpoint or an auditing standpoint, well run funds, really no comments related to these revenue producers within the City and properly managed.

Mr. Bassett stated on Page 62 these are your pension trust funds and I just want to alert you to one item there. Under Investment Gains and Losses, which is the second category down, this snapshot unlike the other report, this is as of December 31st. So you really didn't recognize that 6 months of earnings within the market, so you see a net loss of \$10 million. I'll have the number for us next week, but what it really was through June 30th, so you're really comparing this as of December 31st where we didn't have the increase in the market over the last 6 months of the year isn't recognized here. The footnotes to the statements are the next big portion of the statement and those are really consistent with last year. The last couple of years we've had some discussion about different things or unusual things or unusual transactions within the City. You really didn't have that this year. I wasn't going to go walking through all of those statements because they pretty much stayed based the same as last year. The accounting principles used and the policy used remained consistent. That's what I wanted to talk about from a financial statement standpoint and the financial highlights of the City and really everything I talked about if you go back and read the MD&A it will be mentioned in there in a little bit more detail and a little bit clearer. And they will have page references to help you walk back and forth. We can stop at the financial standpoint and I would be happy to entertain any questions that you may have or as far as our approach or our procedures or any findings that we may have.

Alderman Shea stated I'm not sure who I would address to, possibly Kevin and if we could go back to Page 35. I'm not sure Kevin if you would want to explain the government-wide assets for the City and then the other business-type activities, which comprise how we arrive at figures that total \$311.3 million and other types, so that we can get a better grasp as far as when we discuss things, particularly publicly. People can get a better idea of what we're talking about. That would be power point one and then it's kind of tied in with power point two, in terms of financial highlights.

Mr. Clougherty replied right. When we talked about the government-wide, we're talking pretty much about the general fund and how that operates, which as you know is the fund that's primarily supported by tax receipts. When you're talking about the business operations, you're really talking about our enterprises and how they operation on a fee basis and it's important to distinguish the two because as you know the whole idea saying that the enterprise has no tax dollars supporting the operations at the Airport or water or EPD, they are all fee based. So that's why there is the distinction there. But when you're taking a look at the total assets, which was the initial sheet that Scott was talking about, you really have to look at the governmental as well as the business type to give you a flavor for the total operation that the City has. Those are the distinctions he's trying to make. You know you really have a general fund and then you have your enterprises. And they are separate but they have to be considered together when you look at the total operations. So when he does his audit, he's looking at all of them. Some of the rules that apply to the way the Kevin Dillon has to operate the Airport and the way that Tom Bowen has to operate the Water Works, have been very different in the past with respect to the general fund. With GASB 34 it's getting a little bit closer, but it's still a different approach and that's why we have to separate this. There are separate rules and those are all laid out in the details of each one of these reports. Now the CAFR is an apendium of all of these reports put together. There are separate reports for the Airport, for Water and for all of those entities, which lay out their financials and their footnotes and those are available as well. And again, if there was anything that Scott thought was a weakness in the operation of any one of those individual entities, he would be obliged to come forward and tell you there are issues, but as he said, they are well run. And you've heard this from rating agencies as well as from the auditors that looked at them. They are well run operations.

Alderman Shea stated just one point that I think should be made known, is that we do have two kinds of bonding in the City. I know that most of us understand that, but the general obligation bonds are bonds, you can probably explain it, I know what it is, and then revenue bonds. So people can understand that not every particular enterprise or not any enterprise, but not all particular operations of the

City are supported by way of general obligation bonds, which come out of taxpayer's money.

Mr. Clougherty stated that's exactly right Alderman. There are general obligations of the City that the City has to pay out of its tax supported activity and there are revenue bonds that are paid out of specifically earmarked revenue. So for example, at the Airport all the revenues that Kevin gets from the different leases, from the airlines, from passenger charges and operations of the restaurants and things, those are all revenues that help contribute to pay for that debt. There are not tax dollars going to pay for the debt on the Airport. Similarly the fees that are raised by the Water District are what pays the water bonds. They're not paid for by the taxpayer; EPD similarly their fees pay and not the taxes. The only other distinction might be there with the revenue bond that we just did for the schools, but that was structured as a revenue bond, as you know, because there are State dollars and there are contributions from the out of town tuition people to pay for that, so that's why that was structured in that way. But all of those were accounted within the rules that Scott has to follow and that we have to follow in putting together these financial statements on a regular basis.

Alderman Osborne stated I want to go to Page 48, under the Budget Trends. The bottom lines, we're just talking \$3 million? From \$3 million to \$4 million?

Mr. Clougherty stated again, if you look at that, that's the total budget for the three years, less Manchester School District, so if you were to take the total appropriations less School District, the general fund City side, if you will, is that \$3 million you're talking about Alderman. I just want to make sure that everybody understands that that is how the School District is treated in that calculation.

Alderman Osborne stated I guess Mr. Thomas would probably be able to answer this, just a quick question. In 2002, I guess the motorized equipment was \$382,500 and in 2004 it is in for \$120,000 and in 2003 it was \$50,000. In 2002, what was the amount here for?

Mr. Clougherty responded I just think your seeing a trend in...I just think budget decisions have been made. You haven't funded MER. That's something that we've been talking about as part of this budget process, so we're going to have to address that. Again, that's the nice thing about these documents, Alderman, is that it does bring out those trends. It does show you what you're doing. It's full disclosure and there is an area where you're not funding it is very clear.

Alderman Osborne stated I guess highway and streets stayed about the same.

Mr. Clougherty answered right. There are categories that are set out by the Government Accounting Standards Board is the standard setting body that promulgates generally accepted accounting principles. They are the ones that say how you have to develop your financial statement and every city and town and state in the country has to follow those same rules. So there are rules in terms of what gets calculated into those different categories and we all have to follow it so that you can pick Manchester's financial statement and compare it to the State of Connecticut or compare it to a town in Connecticut or any other town in New Hampshire. They are applicable across the board and that's only been the case since about the late 1980s.

Alderman Osborne asked so \$1.5 million of this was the schools? From 2003 to 2004 is a \$1.5 million increase.

Mr. Clougherty answered if you look at that column that says less Manchester School District budget and there's parenthesis \$115 million that is the School District budget. You're seeing the increase in 2002 \$115 million to \$126 million. Manchester will also be getting more money from the State. But you back that out from the total appropriation, if you look up top there's \$115,000 for education. So if you look at the total budget, \$218 million is everything. If you include the school, that's what you spend on those categories. If you want to back out the School District, you get down to a net non-school number, that's what that \$103 million is. So the net non-school difference has gone from \$103 million to \$106 million, that's \$3 million over three years.

Alderman Shea stated on Page 36 again. How is our City in 2003 better financially and other ways than we were in 2002? Just the highlights. In other words, where do you see the important growth or financial stability...?

Mr. Bassett answered I think it gets back to when you made management decisions. One year you may bond, one year you may not bond, and 2003 wasn't a heavy bonding year within the governmental fund types. But I guess what I would take a look back...if I stepped back, 2003 were a lot of increases as I go through other cities. Interest rates came in lower than expected in very city. Health insurance benefits increased in every city and most of the cities that I've taken a look at this year as of June 30, 2003, their expenditures exceeded their revenues by more than what was anticipated. So if I was to sit back and say well how are we better between Manchester from last year to this year, I would just sit back and say well it was a tough year for the economy as far as if you looked at interest rates and you did not jeopardize your fund balance position. You were able to manage that by holding expenditures tight and keeping good track of those. So I think you're better when you compare to another city, because your deficit is not as great as it could have been if you didn't take the measures to manage your

expenditures. So that's where I would say most people probably would have had a loss in that ratio of general fund fund balance to total expenditures would have decreased when you pretty much were able to maintain yours.

Alderman Shea stated that was one of the points I think that was raised at the budget Kevin, if you can elaborate on why you insisted on not taking money from the rainy day fund or from our fund balances.

Mr. Clougherty replied if you look on Page 54, and you take a look at the third line from the bottom. The bottom line says total liabilities and fund balances \$96 million and just above that has fund equity of \$22 million. I think what Scott is saying here is most other cities and towns if you look at that line above, where it has undesignated fund balance of \$1.3 million, part of our budget this year we planned to have some fund balance, or part of the 2003 budget was to have some money and we had to manage to generate that. If we hadn't intervened during the course of the year and cut back expenditures, which was hard decisions for the Board to make, you wouldn't have had those dollars and you wouldn't have been able to keep the tax rate where you wanted it to be and you wouldn't have been able have those dollars going in the future. Also, your revenue stabilization fund, where as other cities and town have had to not only lost their undesignated fund balance down to zero, they've drawn down on their revenue stabilization fund considerably, if not to zero, and we also have our tax rate stabilization fund, so we've been able to strengthened our financial position and stay in the range that's reasonable but not excessive by credit rating standards, so that we're able to move forward. A lot of other cities and towns now, if you think about it, if you were a town that had drawn down all of your health insurance benefits and all of these other reserves where we've got money set aside, you're eventually going to have to raise taxes to set up those reserves to cover you insurance costs. We managed our way through some difficult times; we don't have to do that. So even if we had the exact same numbers in that column as we had the previous year, we'd be ahead of everybody else, but not only were we able to do that, we were able to add a little bit, not a lot, but add a little to those, which I think again is a testament to the City's management to make some really hard decisions during the year. And I think that's the difference between Manchester and others. When we started, when Randy and I started as finance officers, there was a real push. CAFRs were just starting out in the early 1990s. Everybody wanted to have a CAFR and if you got a CAFR you got a comprehensive annual financial report, you got award from the Government Accounting Office and you could get an award from the National Association of Government Finance Officers and everybody was putting together these great reports and these glossy reports, but we didn't do that. You may recall Aldermen, that we went in and we said it is more important for us to put in a system of monthly and quarterly financial reports, and we still do. We always talked a lot with the Committee on Accounts about how the monthly reports, are

they what you want, are they full reports not just budget reports, but actual financial statements. By doing that, we're able to pick up things faster than other cities and towns because our thought was you could have the nicest financial statement, with the glossiest pictures and all of these things, but if it's in the red, it's useless. So we concentrated for the first six years of putting in these monthly statements and then have grown up to this CAFR, so now the CAFR to us is the end result. The CAFR is in my opinion is not as important as a monthly statement. So if you stick to the discipline and the monthly and quarterly, your CAFR is going to be okay and that's what we're seeing as opposed to these other cities. By looking at our monthly statements and we have some good discussions in Committee on Accounts. Where are our revenues? Are we okay? Are we going to have to cut? I've got to say that I think in a lot of other cities and other states, they don't have that level of discussion. They wait until they are six months into the budget or they wait until they're at the end of the year, and by then it's too late. So I think the active management that we have here with the audit committee, a lot of people are getting religion on let's have an audit committee and audit committee's since DeBarnes, Oxley and all of these things with problems with Enron and these other companies, have been invoked. You guys have been meeting as an audit committee since I've been here and have shared in a partnership in trying to get these reports tight. So I think that's a big difference between us.

Mayor Baines stated I would like to just comment briefly. I think everybody should take great pride in the way the City is being run financially, and as Kevin said we've had to make some tough decisions in years past where I've had to go in and freeze certain accounts and cut back on hiring and managing the departments, but I think the real credit here is the structure that's been put in place and also the sound management of the various departments in the City and the department heads that we have in the City and they are doing an extraordinary job managing the budgets that are given to them and providing the services, but still managing so that we end up with a fund balance at the end of the year. I can tell you since I'm very active in the US Conference of Mayors that there are a lot of sad stories out there about cities across America and our region right now. All the way from laying off public safety officials and teachers. I know I was talking to the Mayor of Cleveland, she had to lay off 250 police officers and I think 80 or 90 fire fighters and there are some very serious things going on out there so we should be very fortunate that we have the kind of sound financial management in place, we have very strong reserves. That's what helped us when we went to Wall Street to sell our bonds, they kept citing that the City had strong financial management and that's been a collective and an ongoing effort working with the Finance Department, the Office of Mayor and obviously this Committee. So we've a lot to be proud of. This is a very good story about the City of Manchester when there

are a lot of sad stories out there for cities that have spent all of their reserves and are in a severe financial situation. We should be very proud of this report.

Alderman Osborne asked staying with Page 54, does the City obtaining any interest on the rainy day fund?

Mr. Clougherty answered the rainy day fund is an accounting entry at year end. What we have is you get your quarterly report, your treasurer's report, that lists out every dime that we have in the City by fund and what it's invested in and what the return is. So yes, all of our dollars are fully invested and the goal there, if you read the footnotes, is to make sure that they are protected. So we have them collateralized with the Federal Reserve Bank and through other mechanisms to make sure that in the event that there was an insolvency problem with one of the institutions where these dollars are, we're further protected by having collateral that we can draw on.

Alderman Osborne asked what kind of interest does it draw?

Mr. Clougherty answered right now I think as Scott said in the last year with the Federal Reserve being what it is, it has been down around one percent. I should make this clear. With your funds that are taxpayer supported, there are very tight State laws that restrict what you can invest in. They are very prudent. Your trust funds on the other hand are more liberal and you can invest your pension funds and your cemetery funds in the stock market and that's why you have a full time board that oversees those types of things. So it's a little different approach. But right now, given what you're allowed to get into, the earnings aren't great. But as we start to see the Federal Reserve maybe move in next years' budget to raise the rates, that will go up. But again, on the other side, it is a lousy time to invest, but it's a great time to borrow at low rates too. So that's why we've been taking the approach we've been taking. Now eventually that may flip over and we'll back on the borrowing and you'll get more on your investing. But right now we're enjoying very favorable rates for getting big capital projects done.

Alderman Osborne stated it is 2.5 percent at Citizen's on a six-month certificate.

Mr. Clougherty responded right. In some cases the rates that we've been getting aren't that great, but if you take a look at that one summary sheet that you get, it will list out every single item that we have and we have laddered them out over time to try and repeatedly capitalize on what's out there.

Alderman Osborne asked is this added right back into the rainy day fund?

Mr. Clougherty answered it doesn't go into the rainy day fund. The rainy day fund is not a separate bank account, Alderman. It's a fund for accounting purposes, but all of your dollars are invested.

Alderman Osborne asked has anything been subtracted from this in the last couple of years at all, for any reason?

Mr. Clougherty answered we did take something out of it...I think we came close at one time, but we didn't.

Deputy Finance Officer Randy Sherman stated the only time we take anything out of here is if there is a deficit for that current year.

Alderman Osborne asked that has to go through the full Board?

Mr. Sherman replied we have never had a deficit since this account has been established.

Alderman Osborne asked is this it though? What you've got for figures?

Mr. Clougherty answered that's it, \$9,633,624.

Chairman Smith stated Kevin, I'd like to go back to fund deficit. CDBG, Capital Projects and Irrigation funds. Like you said it totaled \$1 million and then there's a note down there City anticipates finance and deficits through future revenues. Do you know something more than I do?

Mr. Clougherty answered no. What we're talking about Alderman is the point I think that Scott was making, is that when you draw down those dollars and then you go into the market and use your bonds. For example, you're looking at deficit in the capital fund because of mainly the big projects we're doing, but you'll recall that we issued bonds in July for the schools. Because we issued those in July they're not in this financial statement, which ended June. Then we issued the water bonds I think in August and then we just issued our general obligation debt in December, so that will all be included in the next year, so you won't see a deficit in the capital fund because we have raised the revenues in the form of bond proceeds to take care of those issues.

Mr. Bassett added when we go through our review process I did add a few future debt issuances, so we did have an edit there.

Alderman Shea stated I know that there were three recommendations that were made and we also received for one of a better word some part of a rebuttal and I'm just wondering, we have a contract compliance officer that was recommended and obviously there was some discussion about whether or not that is pertinent matter. I noticed that a representative from the Water Works and a representative from the Highway Department. I'm wondering how essential is that in terms of adopting it or is it something that recommended but not really essential?

Mr. Bassett responded your last thing is probably correct. We as auditors go through and really...I'm talking about a contract compliance officer in general. I know other departments that under grant administration what they know particular to that project. They probably know better than someone centralized in City Hall. We've made the comment the last couple of years and I was telling Kevin and Mayor, I probably won't make it again next year, but the concern that we have overall, there are very many contracts out there and I state this but I do a full Federal single audit and don't have any compliance findings. So for the program test, everything is running in accordance with Federal regulations. I think it's just something that we see that has worked well in some other communities. It's just an observation that we made as far as implementing it. We do mention it, but if you don't implement it, it doesn't meet a category of any type internal control deficiency. These are observations in all. I don't think they're meant to be recognized deficiencies in your internal control structure, other than if you take a look at something and it is what other communities are doing, this may be an area that you go in. I've read the rebuttals and I can't disagree with them, but we just make this as an overall general comment.

Alderman Shea stated the Mayor just indicated how well the City department heads work within the context of the City, and therefore, in my own opinion, if it's not broken, why would we want to fix it. In other words, if there were some serious problem I would say..., but in my judgement at this time, although it's an observation on your part...

Mr. Bassett stated we do most of our work, you've got a lot of Federal dollars in aviation and Federal dollars through your Police Department and I guess this is...maybe I should figure and maybe eliminate the major departments in there, but there's a lot of other little grants that go out through the City, where they might not be as knowledgeable about specific grants and Federal regulations as the major departments are who deal with these on a day to day basis. As I think that's where the comments are coming from.

Mr. Clougherty stated could I just follow up on that. In terms of the central contract administration, the one area that we feel is important is a central repository for contracts. Right now there's no single place that you can go where

all of the contracts are maintained. This isn't so much a problem for us on the expense side, because obviously when a department puts in a request for payment, we can ask them for the contract and we don't make the payment unless we get the contract. So on the expense side that seems to work out okay. It's on the revenue side that we have a real concern. Because if you have an agreement out there that was made by one of the departments with respect to receiving revenue, even if the original contract was approved, if it's amended later and we don't know about it, there may be some money that should be coming to the City that we just don't know about. So if there's no central record on contracts, that's problematic and has been problematic to us for a long time. So that central repository I think is worth considering and that's why I made my recommendation to ask you to refer it to one of the committees so that we could have that discussion about what might be a reasonable way to approach some type of central repository, particularly for these revenue contracts that have been elusive over the last few years.

Alderman Shea asked have you experienced a problem?

Mr. Clougherty answered yes.

Alderman Shea asked has it been resolved?

Mr. Clougherty answered you talk about parking. Some of these things that go back to contract that were put in place years ago. Because there is no central repository, when you go back to say does some company that's part of a deal to put it an intersection or a deal to put in something that may have come through the Housing Authority or through some other City department where we're supposed to be collecting money. If we don't know about that, you can't enforce it. So I do think that that's a recommendation that merits discussion about how there could be one central repository for contracts. I know Tom [Arnold] in the back would be helpful too as to what's our liability. Because it's not just the revenue coming, but what's our liability with respect to these contracts.

Alderman Shea state just by way of questioning, any contract that are draw up, isn't the City Solicitor's office involved with it.

Mr. Clougherty answered not all of them. I would defer it to Tom on that.

Mr. Arnold stated no the City Solicitor's office is not necessarily involved in all of them. We do review and offer comments on a great number of them, but it's usually on the request of a department. We certainly have departments that on occasion enter into contracts without soliciting our advice.

Alderman Shea stated so you're saying that if the, I'm just using this, Information Systems enters into a contractual agreement with a particular vendor, that the City Solicitor's office may or may not be involved with the contractual agreement with that particular vendor?

Mr. Clougherty answered they may not. Now with respect to Information Systems, I think they're one of the departments that is really good about following it, but you may a small department that has committed the City somewhere or a commitment that was made at some point in time with respect to the City getting some revenues that just does not find itself to a central repository and you can't go back and research it. We have a difficult time, as you know, sometimes going back to find contracts and amendments.

Alderman Shea stated I know that we did have a few recent ones, but under current situations would a small department enter into a contractual agreement without letting either the City Solicitor or the Finance Department know?

Mr. Clougherty answered yes and that's not got.

Alderman Shea stated so that might be one of the thoughts that we could sort of discuss and see how that might be clarified.

Mr. Clougherty stated exactly Alderman. That's why in my response to the Management Letter I said that I thought we should refer this to a committee for discussion, and again, a lot of your larger departments that are dealing with contracts seem to be the ones that have a command of it, but smaller departments or some arrangements that involve some of your economic development that are run through smaller departments, can be problematic.

Alderman Osborne stated let's go back to what Alderman Porter said. They do this within their budget though, don't they? They still have to look at their budget if they're going to have to go ahead and do something without the permission of the City Solicitor or whatever?

Mr. Clougherty answered that's true. But at other cities, we've seen in other places, maybe not here, we've seen where it could be the occasion where somebody does go in and make a commitment unaware of a multi-year commitment and that forces you to have to make a decision and that's what we're trying to...

Alderman Osborne asked you're talking about the small print? It should have gone to the City Solicitor because of the small print?

Mr. Clougherty responded right. And you could find yourself by not taking those precautions having a long-term commitment that you're not happy with. Now we've been lucky. We haven't had a lot of those things happen, and I think that's what Scott is saying here, is this a major problem? No it hasn't been a major problem. Is it a major internal control item that he's seeing? No. Most of the departments, particularly the big materiality items are handled by departments that do a good. But, can we do a better job of tightening that up to help protect ourselves so we don't get into a problem? Yes, I think we can, and that's what we need to talk about.

Alderman Osborne asked why don't we do it?

Mr. Clougherty stated I think it needs to have a discussion at the appropriate committee. Probably like Administration or even Committee on Accounts and work with the departments to try and come up with something that's procedurally going to be good and not be cumbersome and cost us more money than the final result.

Chairman Smith stated I'd just like to summarize this. It has been a bone of contention with me because of the big departments. As you well know, I worked for one of them. But Kevin Dillon probably has contracts, millions of dollars, Frank Thomas and now with the School Department and they administer all of them. The Water Works has got a \$38 million plant going on. This is the same document that we received last year. I think, my own personal opinion is that department heads are responsible to the Mayor and if it is a small department I know that we had the episode with the Traffic Department years ago, but if the department is solely responsible to the Mayor, I think that this should be worked out. I don't think it is as big as a lot of people are making out. I really think like the Airport, Highway, Water and I also know that other departments take care of their problems efficiently. We will undertake this a committee and we'll also make recommendations but this is the same identical piece of literature we had last year, by the same firm and I would just ask Scott, have you gone to any of these departments to talk personally with the gentlemen?

Mr. Bassett answered no I haven't. I did make the observation, but again... We make the observation but it's really management's decision whether to implement this observation to let it go. If it were something that we felt really strongly about, we would notch it up to a different category. And this is at a low level as I first mentioned. It is an observation and it probably won't be repeated next year. After two or three times, after I go through something, and whatever management decides, that's fine. I've communicated it to you; maybe I go on to something else. That's probably what will happen next year.

Alderman Shea stated just as a thought, possibly as a procedural kind of matter in this case, and again, as the Chairman has mentioned, we will be discussing it, possibly when the Mayor has department head meetings, he could bring that to the attention of the small department heads and then if in fact as a result of that discussion the Finance office when they discuss it feels that there should be some sort of a procedure situation, then obviously we would probably want to follow some sort of format. Again, it would depend upon what's been done in the past, how well has it worked, whether we have impending problems and things of that nature. My thought Mr. Chairman is we would probably make a motion to that affect. You could call it to the Mayor's attention if you so wished.

Mr. Clougherty stated and that's fine. Just so you're aware Alderman, what we're trying to do tonight is to present to the audit committee are these issues in a draft form. What we'd like the Committee to do is give a committee report so that we can have at the next Aldermanic meeting and he'll talk to the full Board about the audit report so that everybody gets a chance to review that. And at that time, if your recommendation is to refer it to the Mayor then that's your recommendation.

Alderman Osborne stated getting back to the contracts. Wouldn't this just be to protect the department head? It's not that we're trying to say that they can't run their department, it is what you'd call a second opinion type of thing to check all contracts to make sure that they are worded properly. I still think it's something to look into anyway to make sure that all contracts that are signed by departments should be looked at by the City Solicitor's office.

Mr. Clougherty stated I'd like to thank the Committee and I'd like to thank the departments. They did a great job this year. We stuck to our budget and we've got good results.

There being no further business to come before the Committee, on motion of Alderman Osborne, duly seconded by Alderman Shea, it was voted to adjourn.

A True Record. Attest.

Clerk of Committee